

**189—18.5(533) Allowance for loan losses computation.**

**18.5(1)** The credit union shall perform a review of all loans to determine potential losses which will be sustained in collection and to establish an adequate allowance for loan losses account. The estimate shall be based on the best judgment of the credit union officials and take all pertinent factors into consideration including, but not limited to: loan delinquency status of two months or more; collection experience of the credit union; unusual economic conditions that may affect collectibility; availability of pledged shares, collateral, security, or endorsers; insured FHA or educational loan coverage; and the general credit reputation of the borrowers.

**18.5(2)** Loans considered or classified as a loss shall be included in the allowance for loan losses account at 100 percent of the outstanding loan balance as reported on the credit union's records. Loss loans shall include, but not be limited to: contractual delinquency 12 months or more past due; borrower adjudged a bankrupt or a skip unless there are extenuating circumstances; deficiency balance after the sale of repossessed collateral; a loan turned over to an attorney or outside agency for final collection; or, loans deemed to be uncollectible or where continued collection effort is nonproductive regardless of the number of months delinquent. These loans would represent a high degree of risk of default or probability of loss.

**18.5(3)** Loans considered or classified as doubtful shall be included in the allowance for loan losses account at 50 percent of the outstanding loan balance as reported on the credit union's records. Doubtful loans shall include, but not be limited to: contractual delinquency 6 to 12 months past due; or, loans with material deficiency in perfection of loan documentation which could result in collection-in-full being highly improbable. These loans represent a material degree of default risk, and based on the facts and payment performance of the loan, collection-in-full is doubtful.

**18.5(4)** Loans considered or classified as substandard shall be included in the allowance for loan losses account at 10 percent of the outstanding loan balance as reported on the credit union's records. Substandard loans may include, but are not limited to: contractual delinquency two to six months past due; or remaining delinquent loans with extenuating circumstances such as recent employment layoffs, discharges, or terminations, and loans with repetitive broken payment history. These loans represent a slight degree of risk of default but, with continued collection efforts, should result in probable collection-in-full.

**18.5(5)** The allowance for loan losses account should include estimated amounts to cover loan losses which may result from specifically identified troubled or classified loans, pools of classified loans, pools of loan types or credit instruments, and a general portion of all other loans and credit instruments for inherent losses. Credit unions are responsible for determining an adequate allowance for loan losses account, and adopting a reasonable methodology for doing so. If a credit union fails to determine an adequate and reasonable allowance for loan losses account which will result in the fair presentation of its financial statement, the superintendent may require additional amounts to be set aside as provided by Iowa Code chapter 533.